

Search Energy Corp.

We set out to build a
stronger company.

The results **1999**

Speak for themselves.

Annual Report

Highlights

For the years ended December 31

Operational

Production

Crude oil (bopd)	1,275	1,383	(8)
Natural gas (mmcf/d)	16.7	8.2	104
Total (boed)	2,945	2,204	34

Drilling

Gross wells	56	25	124
Net wells	47.3	17.8	166
Success rate (%)	88	67	31

Proved reserves (mboe)

1999	1998	% Change
8,040	6,582	22

Proved finding and development costs (\$/boe)

1999	1998	% Change
8.06	6.85	18

Financial

Oil and gas sales (\$ thousands)

1999	1998	% Change
25,770	14,965	72

Average price

Crude oil (\$/bbl)	22.21	17.70	25
Natural gas (\$/mcf)	2.54	2.01	26

Cash flow (\$ thousands)

1999	1998	% Change
13,549	6,009	125

Per share (\$)	0.29	0.16	81
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Net income (\$ thousands)

1999	1998	% Change
5,711	597	857

Per share (\$)	0.12	0.02	500
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Return on capital (%)

1999	1998	% Change
13.4	3.4	294

Return on equity (%)

1999	1998	% Change
15.6	2.2	609

Long-term debt (\$ thousands)

1999	1998	% Change
13,000	14,350	(9)

Working capital (\$ thousands)

1999	1998	% Change
(5,564)	303	—

Capital expenditures (\$ thousands)

Exploration and production expenditures	26,174	14,354	82
Acquisitions	6,833	12,888	(47)
Dispositions	(12,667)	(3,406)	272
Net capital expenditures	20,340	23,836	(15)

Since listing on The Toronto Stock Exchange in 1995, Search Energy has pursued a growth strategy of acquiring high quality assets, often through uniquely structured deals, followed by value enhancing exploration and development.

The Company has a balanced risk profile in its drilling inventory ranging from lower risk plays in its main producing areas, to higher risk targets with tremendous reserve potential in its exploration areas.

Our results have been driven by three forces:

- top-notch explorationists
- commitment to adding value
- focus on profitability

strategies behind our results:

strategy- Build a base of high quality assets leveraged to natural gas.

initiatives- We sold high operating cost oil properties, and made good headway in evaluating gas-prone properties acquired in late 1998 and 1999. Our average weighting of gas production rose to 68 percent in Q4.

strategy- Ensure a balanced risk profile that includes exposure to high-impact exploration.

initiatives- Our drilling success rate was 88 percent and included higher risk wells such as our major discovery at Klua.

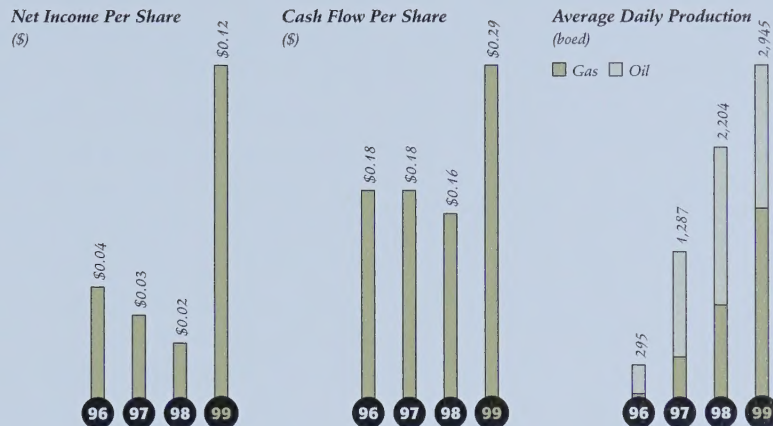
strategy- Maintain a low cost base of production.

initiatives- Our 1999 operating costs declined 14 percent to \$5.34 per boe.

strategy- Increase Search's profitability.

initiatives- A recovery in world oil prices improved our profitability, but so did our reshaping of the asset base and cost reduction efforts.

president's message: the results speak for themselves



Every young company on the road to success reaches a turning point; a time when everything really begins to gel. 1999 was our turning point. The rebound in oil prices was certainly a major factor in Search posting record financial results. But the true measure of our success can be seen in initiatives to build a stronger – and more profitable – company. The results speak for themselves.

In late 1998, we set a course to reshape our asset base. We had a top-notch exploration team in place, but we needed higher quality properties for them to evaluate. It is not often that such a fundamental shift in strategy yields immediate results but, late in the year, we drilled a tremendous well at Klua with production estimates much higher than the average in Western Canada. A second well drilled in 2000 has yielded equally promising results. That was only one of our successes in 1999. Our shareholders now stand to benefit from a much higher level and broader range of growth opportunities.

High-grading our assets and exploration

At this time last year, we had just acquired three properties – Klua, Bezanson and Stoddart/North Pine – which moved our exploration program into the more gas-prone areas of the western Canadian basin. Bezanson and Stoddart/North Pine gave us exposure to large production and reserve additions in the Peace River Arch; while Klua is in the home run category, a play with the potential to have a tremendous impact on the Company. We assumed higher risk, but we also gained exposure to excellent growth opportunities.

As part of our efforts to high-grade our asset base, we set the objective of divesting high operating cost oil properties including our entire portfolio in the Williston Basin. By August, we had completed the last of the asset sales and, in an arguably bold move, had sold one quarter of our production. By year end, we had not only replaced that production, but had

increased our volumes more than 24 percent over year-end 1998. The majority of these additions related to the record number of wells we drilled in 1999. The dispositions generated \$13 million, and enabled us to increase gross capital spending to \$33 million.

A second part of reshaping our asset base was to increase the percentage of natural gas in our production mix. This shift was targeted to take advantage of the greater stability in natural gas pricing, and to capitalize on forecasts for rising gas demand and pricing in North America. Our acquisition/disposition program, combined with successful drilling, moved our average production weighting to 68 percent natural gas in the fourth quarter, up from 37 percent for 1998, and our proved reserve base to 75 percent natural gas.

Drilling discoveries Our drilling program was very successful in 1999. Based on 56 wells (47.3 net), our success rate improved to 88 percent from 67 percent in 1998. We doubled our gas production, and reserves increased 22 percent. But more importantly, we unlocked some of the potential in our asset base. It is difficult to describe the tension – and the elation – in our offices as drilling results came in during the year.

The greatest excitement came late in the year when we made a major discovery at Klua. The well should be tied in by mid-2000 with our 50 percent share of production in the range of 7 mmcf/d. Unfortunately, control of the well was lost during completion but was regained in 12 days, a reasonable time for such an operation. There were no injuries and environmental impacts were minimized due to a rapid and effective response. We are continuing to evaluate the Klua play and, while we are extremely cautious about predicting results, it remains a very exciting prospect.

Another exciting well was drilled at Bezanson just prior to year end. The well is producing at an excellent rate, and we gained valuable information about the potential of this new property in our portfolio.

Both of these high-impact plays complement our steady production base in such areas as Wainwright and Chigwell where lower cost drilling continues to add significant production and reserves.

Focused on profitability All activities at Search are geared to growth and, more importantly, profitability. Many industry watchers focus on quarter-by-quarter results expecting steady and consistent increases. This financial and operational growth undoubtedly leads to greater value for shareholders, but we consider that only one measure of our success. At Search, our bottom line is profitability. Commodity prices are largely outside of our control. Profitability is not. All of our activities are geared to sustaining the value we add and maintaining a healthy, viable company even in the face of depressed commodity prices. In 1999, we generated a 22 percent return on revenues of \$26 million. It should be noted that this was before the current upward spike in oil prices. Other healthy profit measures for 1999 included a return on capital of 13.4 percent, and a return on equity of 15.6 percent. All of these reflect the way we manage our business and the close ties we keep on our operations to ensure all elements contribute to healthy bottom-line profitability.

Our view of commodity prices Oil is currently selling at the highest level in 10 years while, one year ago, it was at an unprecedented low. This volatility demands that we manage our business with profitability in mind at all times.

To reduce the impact of volatile world oil prices, our production is strategically leveraged to natural gas. Gas pricing is more stable as volumes are sold on North American markets and are not subject to the same world economic and political pressures as oil. Our gas leverage also reflects the positive outlook for natural gas. Industry forecasts show a steady upward pricing trend as demand is rising in North America, and supplies are

decreasing. Even with considerable new export pipeline capacity onstream, Canadian producers are hard-pressed to meet demand in US markets. We see this pricing scenario as a tremendous opportunity for expanding exploration to reap the value from our gas-prone assets.

Building investor confidence One issue of increasing importance is corporate governance – how we ensure shareholders' interests are uppermost. Firstly, we have a number of formal review procedures. Our Independent Reserve Evaluation Committee is controlled by outside directors who conduct an independent review of our reserves. Our Audit Committee is also made up of independent directors. In addition, at our upcoming annual meeting, shareholders will be asked to accept a Shareholder Rights Protection Plan. In the event of a takeover bid for Search, this plan will ensure shareholders are treated equally, and will provide more than the 21 days required by law to respond to a bid.

We also have less formal practices that are very important to our shareholders. Our communications with investors, analysts and the media are as transparent as possible. We must keep in mind the highly competitive nature of our business, but we believe that investor confidence is built on an open exchange of information.

The year ahead The strategies that led to our excellent results in 1999 will remain the guiding principles for our operations:

- We will continue to use the drill bit to build a high quality, gas-prone asset base.
- Exploration will focus on a balance of risk, including high reward plays.
- We will maintain a gas-focused, low cost base of production.
- All of these activities will be targeted to increasing value for our shareholders, and our profitability.

Our 2000 capital expenditures are currently set at \$32 million to drill 58 wells, 35 targeting natural gas. We plan to tie in our first well at Klua in the second quarter, and we will continue to evaluate the potential of the play. We expect to drill three wells this year with the potential to add in excess of net 15 mmcf/d. Each Klua well we drill increases our confidence in the play, but it is still a higher risk venture. As is the nature of the business, there can be surprises, both good and bad. Our other higher impact, gas-prone play at Bezanson will also be evaluated in 2000. Our high reward drilling will be balanced by low to medium risk exploitation and exploration in our other core areas, notably Wainwright and Chigwell.

We have a very exciting year ahead. The foundation built in 1999 is providing tremendous momentum in our operations, and I would like to invite shareholders to visit the President's Diary on our website. It is updated periodically with information about our activities in the field, our office and our dealings with the investment community. I hope it gives shareholders greater insight into the excitement of the business, and how we deal with its challenges.

The staff at Search are a team of very dedicated, special people. Their talents and hard work have translated into considerable achievements and success. I would like to personally thank them all for their efforts in 1999.

On behalf of the Board,



William T. (Bill) Davis
President and Chief Executive Officer

March 31, 2000

property review: the results speak for themselves





core areas in 1999

	Percentage of Production*	Percentage of Proved and Risked Probable Reserves*	Percentage of Undeveloped Land*
Northeastern British Columbia	0%	11%	11%
Peace River Arch	36%	39%	67%
East-central Alberta	64%	50%	22%

* As at December 31, 1999

Search's core areas provide a balanced risk profile ranging from low

to medium risk exploitation to higher risk/higher reward exploration.

In all three areas, Search's strategy is to operate, hold high working

interests and control gathering infrastructure and processing facilities.

Northeastern British Columbia

Search acquired the Klua field in late 1998.

The Company drilled its first well in the field in late 1999 resulting in a significant discovery which is planned to be tied in by mid-2000. Subsequent to year end, Search drilled two additional successful gas wells. This area exposes Search to high-impact natural gas plays with reserves up to 20 bcf of sales gas per well.

Peace River Arch

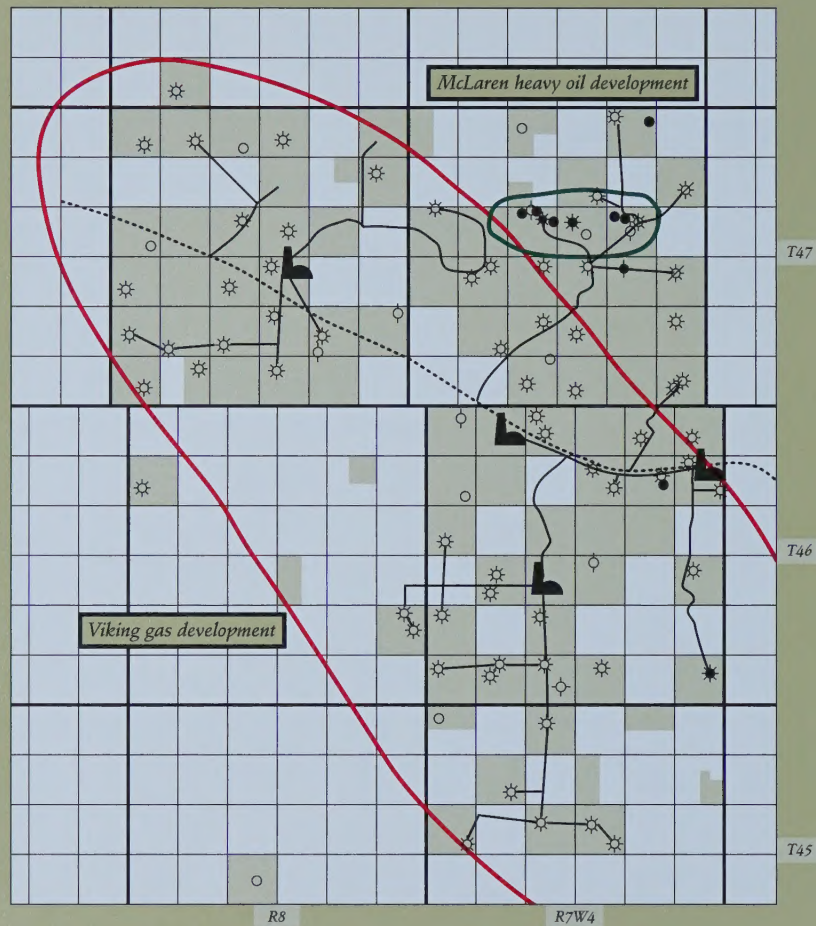
Search has two properties in this core area: Bezanson, Alberta, and Stoddart/North Pine, British Columbia, which was acquired early in 1999. Both properties are characterized by multi-zone light oil and natural gas exploitation and exploration potential, and both have year-round access. Search operates gathering systems and facilities at both properties.

East-central Alberta

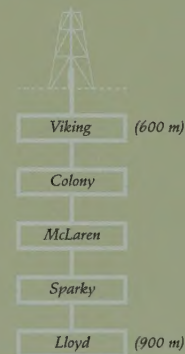
Wainwright is the main focus of operations in east-central Alberta, and Search has been very successful in adding incremental production, primarily natural gas. The area is characterized by multi-zone gas and medium to heavy oil targets at shallow depths above 850 metres. Search operates gas gathering and compression facilities and, when combined with the shallow drilling depths, wells can be brought onstream very quickly. Search's second focus area is Chigwell, a multi-zone light oil and gas property, where recompletions and development drilling is the main activity. An experimental ethane flood at Chigwell is being evaluated for its ability to increase reserves and production.

wainwright

Search has an 80 percent average working interest in 85 sections of land and operates pipelines and oil and gas facilities.



Drilling Profile



Only Search wells shown



Search operated compressor stations



Search field gathering



NUL gathering line

opportunities

- Much of the land is fee simple with no royalty or expiry issues.
- Five shallow target zones for heavy oil and gas.
- 3D and 2D seismic generates high rates of drilling success.
- Year-round drilling and facility access.
- High netback production as Search operates gathering lines and facilities.

challenges

- Competitive land area.
- Technology needs to be applied to recover low production rate/long life reserves.

Wainwright, Alberta

1999 Wells	Gross	Net
Oil	12	9.7
Viking Gas	19	17.0
Mannville Gas	10	8.8
Dry and abandoned	1	0.8
Total	42	36.3

In 2000 Search

- Plans to drill 41 (33.6 net) development and exploratory wells, 24 targeting gas and 17 targeting oil.
- Expects incremental production of about 450 bopd and 3.5 mmcf/d.

1999 Netbacks (\$/boe)

Revenue	24.07
Royalties	(2.65)
Operating cost	(3.36)
Netback	18.07
Recycle ratio	1.8:1

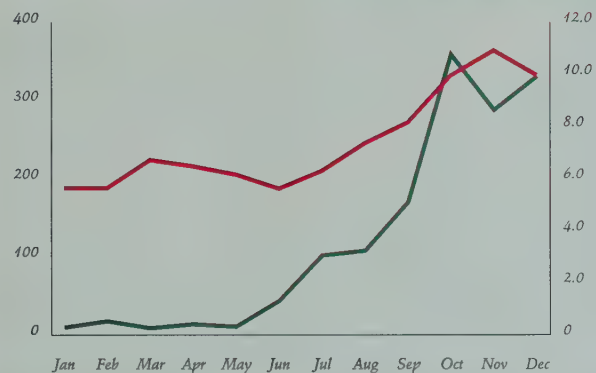
1999 Exit Production*

Oil production (bopd)	366
Gas production (mmcf/d)	9.8
Boed	1,346

* Month of December Average

1999 Oil Production (bopd)

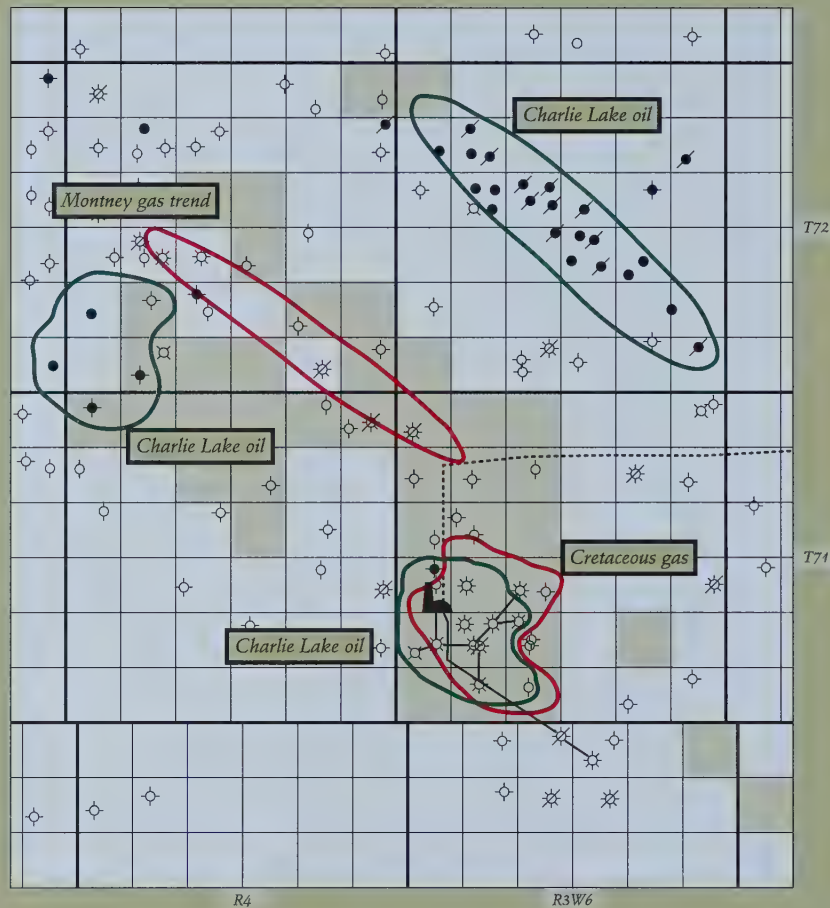
1999 Gas Production (mmcf/d)





bezanson

Search has 43 sections of land with an average working interest of 80 percent, and operates wells, pipelines and oil and gas facilities.



Drilling Profile

Doe Creek	(900 m)
Bluesky	
Gething	
Cadomin	
Charlie Lake	
Halfway	
Montney	(1,800 m)

All wells shown



Search operated compression and NGLs recovery



Search field gathering



NOVA sales line

opportunities

- Seven target zones for light oil and gas at depths of 900 to 1,800 metres.
- Year-round drilling and facility access.
- Search operates gathering lines, and oil and sweet gas facilities with available capacity.
- Good 2D seismic database.
- Search generates revenue from third-party processing at its sweet gas facility, the only one in the area.

challenges

- Sour gas from the Montney formation requires outside processing.
- Charlie Lake oil may be separated into smaller pools.
- Cretaceous sweet gas formations are discontinuous.
- Some drilling restrictions due to topography and residential development.

Bezanson, Alberta

1999 Wells	Gross	Net
Oil	2	2.0
Gas	1	1.0
Dry and abandoned	1	0.7
Total	4	3.7

In 2000 Search

- Plans to drill six development and exploratory wells (5.0 net), two targeting gas and four targeting oil and gas.
- Expects to add incremental production in the range of 100 bopd and 2 mmcf/d.

1999 Netbacks (\$/boe)

Revenue	29.27
Royalties	(4.13)
Operating cost	(5.18)
Netback	19.96
Recycle ratio	3.8:1

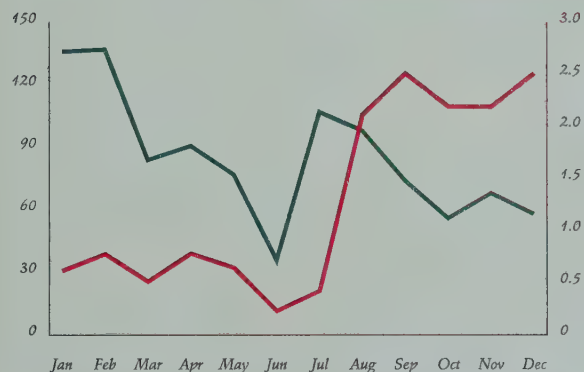
1999 Exit Production*

Oil production (bopd)	60
Gas production (mmcf/d)	2.3
Boed	290

* Month of December Average

1999 Oil Production (bopd)

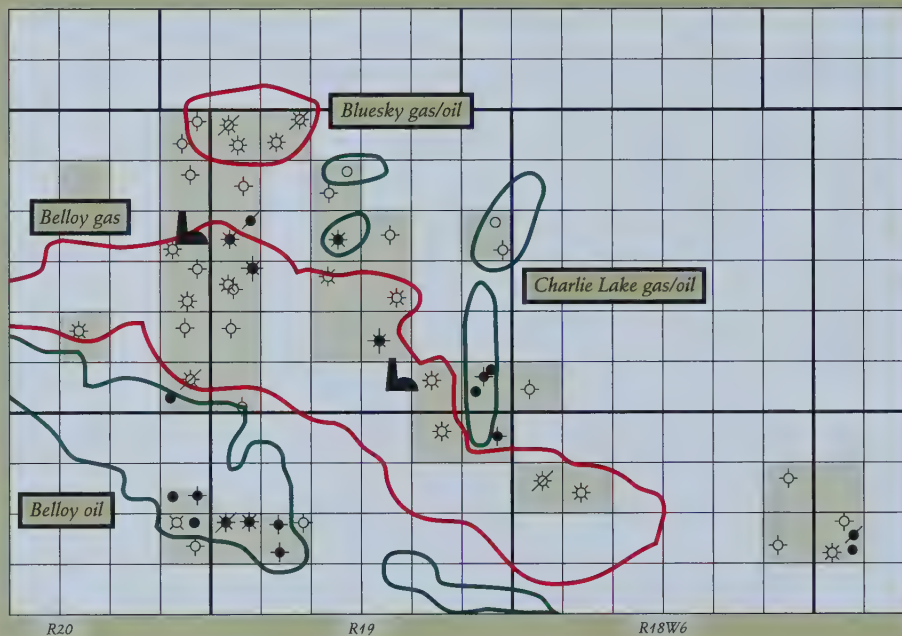
1999 Gas Production (mmcf/d)





stoddart/ north pine

Search has high working
interests in 38 sections
of land and operates
gathering lines and
two gas facilities.



Drilling Profile

Bluesky (1,200 m)
Gething
Cadomin
Charlie Lake
Halfway
Doig
Belloy (2,000 m)

Only Search wells shown

Search operated compressor and dehydration

opportunities

- Seven pay zones for light oil and gas.
- Stable base of production from mature fields.
- Infrastructure for sweet and sour gas, mostly Search-operated.
- Seismic suggests subtle plays remain to be found.
- Year-round access.

challenges

- Costs in B.C. are higher than in Alberta for similar opportunities.
- Seismic investment is required to lower risk of wildcatting.
- Gas contracts limit marketing options.

Stoddart/North Pine, British Columbia

1999 Wells	Gross	Net
Oil	1	1.0
Gas	1	0.5
Dry and abandoned	1	1.0
Total	3	2.5

In 2000 Search

- Plans to modify facilities to increase production by 1.0 mmcf/d.
- Will complete a seismic program to identify drilling locations.

1999 Netbacks (\$/boe)

Revenue	21.88
Royalties	(3.26)
Operating cost	(3.17)
Netback	15.45
Recycle ratio	2.0:1

1999 Exit Production*

Oil production (boepd)	100
Gas production (mmcf/d)	4.9
Boed	590

* Month of December Average

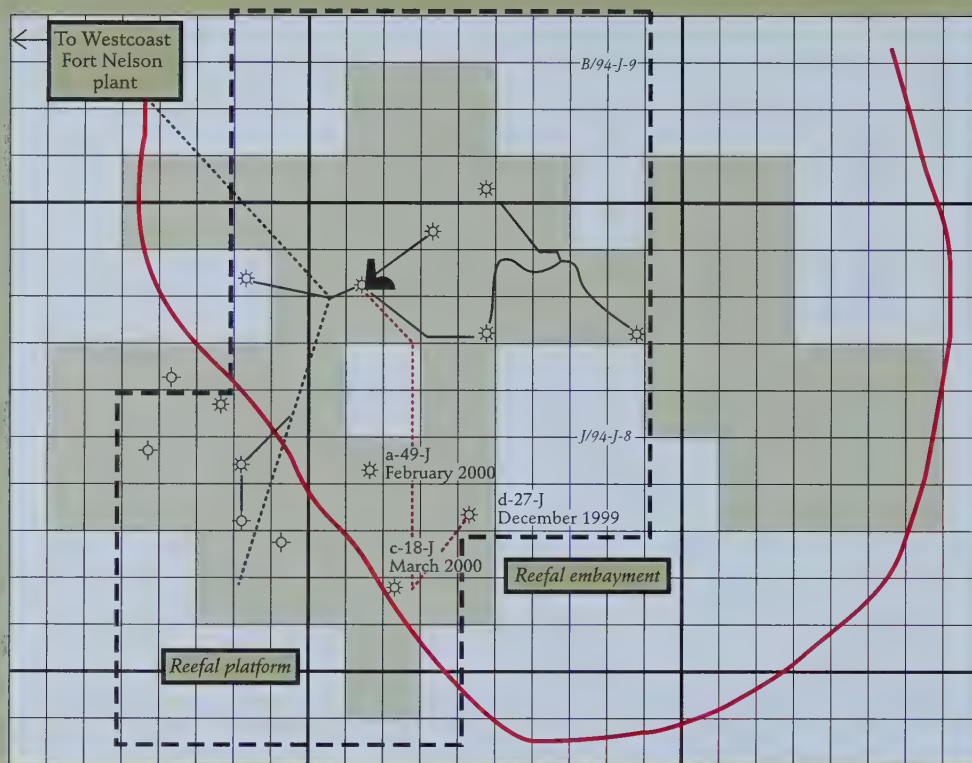
1999 Oil Production (bopd)

1999 Gas Production (mmcf/d)



klua

Search has a 50 percent interest in 26 sections and an additional three sections of farm-in lands in this high impact, gas-prone area.



All wells shown

Dehydration (2000)

Search field gathering

Westcoast transmission line

2000 Pipeline

Existing 3D seismic

opportunities

- Four bcf of net sales gas from four wells require field compression.
- Several locations have been identified on land held or attainable, with additional leads being evaluated.
- 3D seismic results in high drilling success.
- Wells have high production rates and are close to facilities for tie in.

challenges

- Well costs are high due to remote location and drilling complexities.
- Anticipated near-term production exceeds current Westcoast capacity.

Klua, British Columbia

In 1999 Search:

- Shot 2D seismic.
- Concluded two land deals.
- Drilled one gas discovery.

In 2000 Search

- Will construct production facilities.
- Expects to tie in the discovery well by Q2 with net production of 7 mmcf/d.
- Plans to drill three more wells.
- Will shoot \$1.7 million net of 3D seismic.

1999 Wells

Devonian gas

Gross

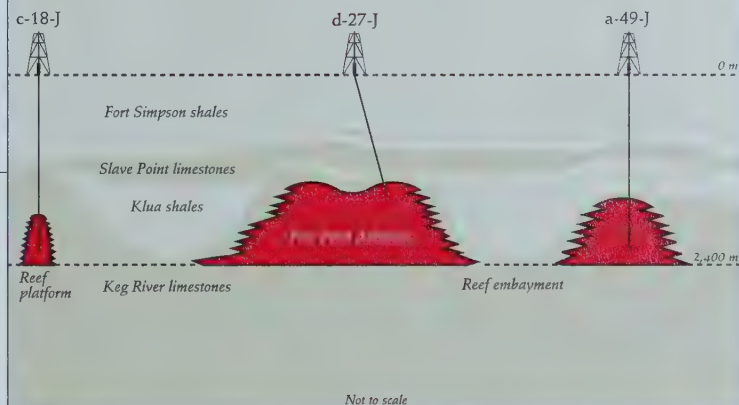
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Net

0.5

1999 Results

- Tested at 15 mmcf/d with a reservoir drawdown of 10 percent.
- Anticipated production rate is 15 to 20 mmcf/d raw gas.



chigwell

Search owns
57 sections at an
average working
interest of
50 percent in
this mature oil
and gas property.

Drilling Profile

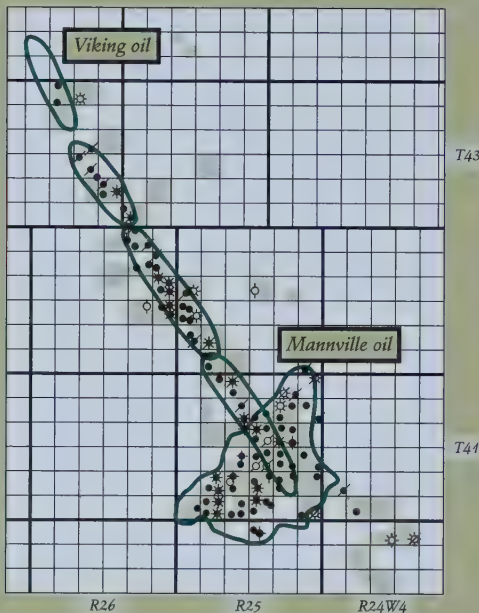
Belly River (700 m)

Viking

Colony

Glauconite

Ellerslie (1,600 m)



In 1999 Search:

- Drilled three gas wells (2.3 net) and recompleted two wells, one gas and one oil.
- December 1999 production averaged 200 bopd and 3.6 mmcf/d.

In 2000 Search:

- Plans to drill six oil wells (1.2 net) and one gas well (0.4 net), resulting in incremental production of 60 bopd and 500 mcf/d.

Search producing wells shown

opportunities

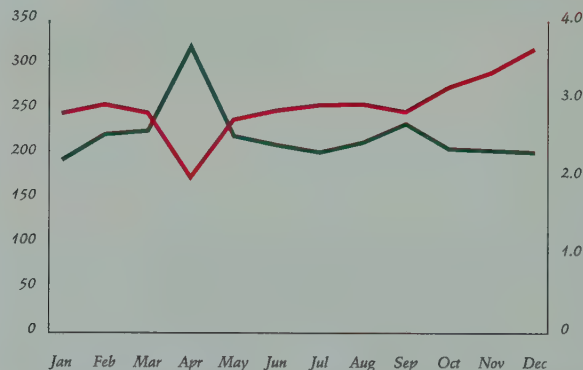
- Five target zones for light oil and gas.
- Ongoing program of recompletions and drilling offset wells.
- Year-round drilling and facility access.
- Unique ethane flood project is under test with the potential to increase production and reserves.

challenges

- Adding meaningful production in this mature area.
- Complex mix of Crown and freehold lands.

1999 Oil Production (bopd)

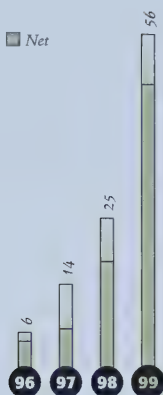
1999 Gas Production (mmcf/d)



operational review: the results speak for themselves

Drilling Activity (wells)

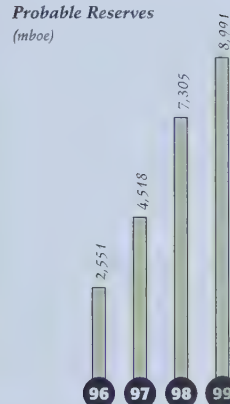
□ Gross ■ Net



Average Daily Gas Production (mmcf)



Proved Plus Risked Probable Reserves (mboe)



Drilling Activity

In 1999, Search drilled a total of 56 wells (47.3 net), compared with 25 wells (17.8 net) in 1998. Search's net success ratio in 1999 was 88 percent, up from 67 percent in 1998.

Drilling Activity	1999		1998		1997	
	Gross	Net	Gross	Net	Gross	Net
Oil	13	9.7	8.0	4.4	4.0	2.2
Gas	37	32.1	9.0	7.5	2.0	1.3
Service	—	—	—	—	1.0	0.3
Dry and abandoned	6	5.5	8.0	5.9	7.0	2.8
Total	56	47.3	25.0	17.8	14.0	6.6

Search operated 91 percent of the wells it participated in during 1999. Exploration wells accounted for 39 percent of 1999 wells drilled. Ninety-five percent of the wells in which Search participated were in, or an extension of, its core properties.

At Wainwright, Search drilled 42 wells (36.3 net) for an overall success rate of 98 percent. In the Alberta Peace River Arch, Search drilled four wells (3.7 net) at its Bezanson property and achieved an 82 percent success rate. In British Columbia at its Stoddart/North Pine and Klua properties, Search drilled four wells (3.0 net) accomplishing 67 percent success.

Production

Search's 1999 production averaged 2,945 boed compared with 2,204 boed in 1998, an increase of 34 percent. Average production was split 57 percent natural gas to 43 percent oil. The percentage increase in natural gas production from 37 percent in 1998 resulted from Search's focus on natural gas at core properties in Alberta and British Columbia. In 1999, Search divested nearly 700 bopd through the sale of Saskatchewan and Manitoba properties and non-core assets in Alberta.

Overall, 1999 average daily natural gas production increased 104 percent to 16.7 mmcf/d from 8.2 mmcf/d in 1998. Continued exploration and development drilling at Wainwright, Alberta contributed 44 percent or 3.7 mmcf/d to the 1999 average incremental gas production. The remainder of incremental gas production, 4.7 mmcf/d, was added at Search's Stoddart/North Pine, Chigwell and Bezanson properties.

Oil and NGLs production declined eight percent in 1999 to 1,275 bopd as a result of Search's divestiture of 700 bopd of non-core assets. The impact of the production divestiture was offset by Search's development of 400 bopd of heavy oil production, as measured at exit 1999 at Wainwright, Alberta.

<i>Production Volumes</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
<i>Average oil (bopd)</i>	<i>1,275</i>	<i>1,383</i>	<i>922</i>
<i>Average gas (mmcf/d)</i>	<i>16.7</i>	<i>8.2</i>	<i>3.7</i>
<i>Average total (boed)</i>	<i>2,945</i>	<i>2,204</i>	<i>1,287</i>
<i>Exit oil (bopd)</i>	<i>1,081</i>	<i>1,584</i>	<i>1,068</i>
<i>Exit gas (mmcf/d)</i>	<i>22.4</i>	<i>11.0</i>	<i>5.6</i>
<i>Exit total (boed)</i>	<i>3,321</i>	<i>2,684</i>	<i>1,628</i>

Reserves

All of Search's natural gas and oil reserves were independently evaluated at year-end 1999 by McDaniel & Associates Consultants Ltd. ("McDaniel"). The McDaniel evaluation has been reviewed and recommended by Search's Independent Reserve Evaluation Committee as appointed by the Board of Directors. The Committee, consisting of a majority of non-management Directors, is responsible for review of reserve additions and revisions, principle assumptions, and methodology upon which the report is based. Search had no proved reserves assigned to well locations that required drilling subsequent to the evaluation date of December 31, 1999.

Search's year-end proved reserves were 8,040 mboe, a 22 percent increase over year-end 1998. Proved and probable reserves increased 24 percent to 9,941 mboe.

	<i>Reserves ⁽¹⁾</i>		<i>Discounted Value of Estimated Future Net Revenues Before Tax</i>			
	<i>Oil & NGLs (mmbbls)</i>	<i>Natural Gas (bcf)</i>	<i>(\$ millions)</i>			
			<i>0%</i>	<i>10%</i>	<i>15%</i>	<i>20%</i>
<i>Proved producing</i>	<i>1,856</i>	<i>36.0</i>	<i>98.9</i>	<i>72.1</i>	<i>64.3</i>	<i>58.4</i>
<i>Proved non-producing</i>	<i>124</i>	<i>17.3</i>	<i>23.4</i>	<i>15.6</i>	<i>13.2</i>	<i>11.3</i>
<i>Proved undeveloped</i>	<i>—</i>	<i>7.3</i>	<i>11.6</i>	<i>9.4</i>	<i>8.6</i>	<i>8.0</i>
<i>Total proved</i>	<i>1,980</i>	<i>60.6</i>	<i>133.9</i>	<i>97.1</i>	<i>86.1</i>	<i>77.7</i>
<i>Probable</i>	<i>661</i>	<i>12.4</i>	<i>32.9</i>	<i>18.3</i>	<i>14.9</i>	<i>12.5</i>
<i>Proved plus risked probable</i>	<i>2,311</i>	<i>66.8</i>	<i>150.4</i>	<i>106.2</i>	<i>93.6</i>	<i>84.0</i>

(1) Reserves are defined as the aggregate of the Company's working interest and royalty interest before deductions of royalties payable to others.

The discounted value of estimated future net revenues determined by McDaniel & Associates utilized McDaniel's March 1, 2000 commodity price forecast.

McDaniel & Associates Forecast	2000	2001	2002	2003	2004*
<i>WTI Crude Oil (US\$/bbl)</i>	\$25.00	\$21.50	\$20.90	\$21.30	\$21.70
<i>Edmonton Light Crude Oil (Cdn\$/bbl)</i>	\$35.20	\$29.30	\$28.00	\$28.50	\$29.10
<i>Alberta Average Natural Gas (Cdn\$/mmBtu)</i>	\$ 3.25	\$ 3.20	\$ 3.10	\$ 3.00	\$ 2.90

* Additional commodity prices available from the Company upon request.

Search's year-end 1999 proved natural gas reserves increased 105 percent to 60.6 bcf from 29.6 bcf at year-end 1998. The strong growth in natural gas reserves was from successful drilling programs at Wainwright, Bezanson and Klua, in addition to the acquisition of Stoddart/North Pine.

Proved crude oil and NGLs reserves declined to 1,980 mbbls from 3,632 mbbls in 1998. The sale of 1,793 mbbls of proved oil reserves, through the divestiture of Saskatchewan, Manitoba and non-core Alberta properties, was offset by successful drilling and the acquisition of Stoddart/North Pine.

Reserve Reconciliation	Proved		Probable		Proved & Probable	
	<i>Oil & NGLs (mbbls)</i>	<i>Natural Gas (bcf)</i>	<i>Oil & NGLs (mbbls)</i>	<i>Natural Gas (bcf)</i>	<i>Oil & NGLs (mbbls)</i>	<i>Natural Gas (bcf)</i>
<i>December 31, 1998</i>	3,632	29.6	946	4.8	4,578	34.4
<i>Revisions</i>	(155)	(0.4)	(71)	(0.1)	(226)	(0.5)
<i>Acquisitions</i>	205	10.8	7	0.3	212	11.1
<i>Divestitures</i>	(1,793)	(1.6)	(485)	(0.2)	(2,278)	(1.8)
<i>Additions</i>	556	28.3	264	7.6	820	35.9
<i>Production</i>	(465)	(6.1)	—	—	(465)	(6.1)
<i>December 31, 1999</i>	1,980	60.6	661	12.4	2,641	73.0

Search's proved reserve life index, based on McDaniel reserves and 1999 exit production, was 5.0 years for oil and NGLs, and 7.4 years for natural gas. During 1999, Search added 2,523 mboe of proved reserves and 2,998 mboe of proved and probable reserves, which replaced annual production by a factor of 2.3 and 2.8, respectively.

Land Review

In 1999, Search increased the strategic focus of its undeveloped land. The Company disposed of Saskatchewan and Manitoba, as well as Alberta non-core assets which resulted in a reduction of 37,697 net acres of undeveloped land. This reduction was offset by the purchase of 25,623 net undeveloped acres in and around core properties in Alberta and British Columbia at an average Company interest of 80 percent.

Undeveloped Land (acres)	1999		1998		1997	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
<i>S.E. Saskatchewan/ S.W. Manitoba</i>	—	—	32,368	21,619	26,816	15,724
<i>Alberta</i>	120,024	73,385	143,291	78,747	74,757	45,075
<i>British Columbia</i>	42,083	26,691	14,140	11,784	—	—
<i>Total</i>	162,107	100,076	189,799	112,150	101,573	60,799

In the Klua area of British Columbia, Search and its industry partner have pooled all of their lands 50-50 enabling a unified development strategy.

As industry activity levels pick up, Search will continue to aggressively but prudently compete at land sales to build its prospect and land inventory in and around its core properties, as well as to establish new exploration prospects.

Capital Expenditures

Total capital expenditures, before proceeds from dispositions, were \$33.0 million. In March 1999, Search completed the acquisition of Stoddart/North Pine for \$6.8 million. The remaining \$26.2 million was allocated to drilling, completions and facilities. Proceeds from the sale of Saskatchewan and Manitoba properties, and non-core Alberta properties, reduced the total net capital expenditures to \$20.3 million.

<i>Capital Expenditures (\$ thousands)</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
<i>Land</i>	\$ 4,432	\$ 3,749	\$ 278
<i>Geological and geophysical</i>	982	258	412
<i>Drilling, completions and workovers</i>	14,732	5,385	5,307
<i>Facilities and equipment</i>	4,547	3,922	785
<i>Acquisitions</i>	6,833	12,888	16,453
<i>Dispositions</i>	(12,667)	(3,406)	(4,690)
<i>Head office expenditures</i>	1,481	1,040	664
<i>Net capital expenditures</i>	\$20,340	\$23,836	\$19,209

Finding, Development and Acquisition Costs

Search's 1999 combined finding, development and acquisition costs were \$8.06/boe for proved reserves and \$6.78/boe for proved and probable reserves.

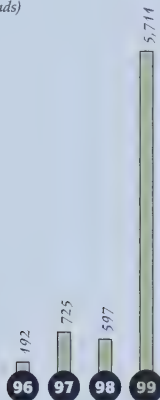
	<i>1999</i>	<i>1998</i>	<i>1997</i>
<i>Net capital expenditures (\$ thousands)</i>	\$20,340	\$23,836	\$19,209
<i>Proved</i>			
<i>Net reserve additions (mboe)</i>	2,523	3,478	2,264
<i>Finding, development and acquisition costs per boe (\$)</i>	\$ 8.06	\$ 6.85	\$ 8.48
<i>Proved plus probable</i>			
<i>Net reserve additions (mboe)</i>	2,998	3,617	2,678
<i>Finding, development and acquisition costs per boe (\$)</i>	\$ 6.78	\$ 6.59	\$ 7.17

management's discussion and analysis

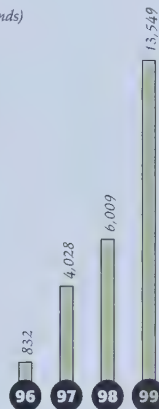
Management's discussion and analysis is a review of the results of operations and the liquidity and capital resources of Search.

It should be read in conjunction with the audited financial statements.

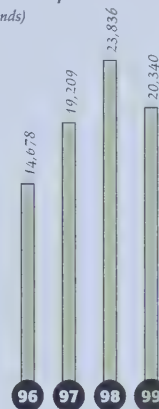
Net Income
(\$ thousands)



Cash Flow
(\$ thousands)



Net Capital Expenditures
(\$ thousands)



Industry Overview

The industry in 1999 was characterized by rising oil prices, solid gas prices, steadily increasing field activity and poor equity markets. West Texas Intermediate (WTI) oil rose from US\$12.49/bbl in January of 1999 to trade at the end of the year at US\$25.60/bbl, an increase of 105 percent. AECO spot gas prices traded in a much narrower band, but still averaged \$2.81/GJ for the year. In the last half of 1999, oil and gas prices were both at high levels.

During the first six months of the year, the industry took a cautious view of the increase in WTI and used the excess cash flow to repair strained

balance sheets. The second half was marked by busier field services leading to some equipment shortages by the end of the year.

Equity markets remained soft during the year, despite the run up in product prices. Early in the year, stock prices were increasing in lock step with the price of crude oil, but a divergence occurred during the summer which saw crude prices continue to move up while equities stalled and even fell in value. Most industry pundits now agree that equities are trading at all-time lows when compared to the current price of oil and natural gas.

Results of Operations

Production Volumes

Production volumes grew by 34 percent in 1999 as a result of successful drilling and the acquisition of the Stoddart/North Pine property in March. Average oil production for the year was reduced due to the Company's disposition of all properties in Saskatchewan and Manitoba. A major objective in 1998 was to increase natural gas production to take advantage of long-term natural gas economics. This theme continued in 1999 as the Company drilled a total of 37 gas wells, up from nine in the previous year.

Daily Average Production	1999	1998	% Change
Crude oil (bbls)	1,275	1,383	(8)
Natural gas (mmcf)	16.7	8.2	104
Total (boe)	2,945	2,204	34

The Company's 1999 exit rate grew by 24 percent from year-end 1998. This growth was achieved primarily from successful drilling and workover programs and the acquisition of Stoddart/North Pine in March.

Exit Rate Reconciliation	Crude Oil (bopd)	Natural Gas (mmcf/d)
December 31, 1998 production	1,584	11.0
New drilling and workovers	421	14.3
Stoddart/North Pine acquisition	123	4.7
Dispositions of properties	(657)	(0.2)
Declines	(390)	(7.4)
December 31, 1999 production	1,081	22.4

Product Pricing

During 1999, the price of WTI averaged 33 percent higher than in 1998. Search's realized oil price was up 25 percent in 1999 compared with 1998. There are two reasons for this difference. First, the Company had an \$0.80/bbl hedging loss during the year. Secondly, the Company experienced a gradual decrease in the API gravity of its oil. This was due to the disposition of light oil properties during the year, while the oil wells drilled to replace them were heavier gravity oil. Going into 2000, the Company should experience a further widening of its realized oil price when compared to WTI due to continued heavy oil drilling at Wainwright.

The Company's realized gas price increased 26 percent in 1999 to \$2.54/mcf. This rise was smaller than the 37 percent increase in the Alberta average price due to a large portion of Search's natural gas sales being based on contracts which attracted lower prices than the Alberta spot price. Corporate realized gas prices are expected to increase in the future as more of the Company's new production is uncontracted gas.

Average Product Prices	1999	1998	% Change
WTI US\$	\$19.24	\$14.43	33
CDN \$	\$ 1.48	\$ 1.48	—
Edmonton light (\$/bbl)	\$27.28	\$20.10	36
Search oil price (\$/bbl)	\$22.21	\$17.70	25
Alberta average gas (\$/mcf)	\$ 2.68	\$ 1.96	37
Search average gas (\$/mcf)	\$ 2.54	\$ 2.01	26
Average price (\$/boe)	\$24.01	\$18.60	29

Petroleum and Natural Gas Sales

Production volumes and product pricing drive the Company's petroleum and natural gas revenues. The factors that contributed to the 1999 increase in revenue compared to 1998 are illustrated as follows:

(\$ thousands)

1998 Petroleum and natural gas revenue	\$14,965
Decrease in oil volumes	(879)
Increase in oil price	2,276
Increase in gas volumes	7,832
Increase in gas price	1,576
1999 Petroleum and natural gas revenue	\$25,770

Royalties

Royalties represent Crown, freehold and overriding burdens on the Company's production. Royalties remain constant as a percentage of revenue, but vary in total according to changes in oil and gas prices and growth in production volumes. Royalties paid in 1999 were higher on an absolute basis and on a per boe basis than in 1998. The increase was due to higher production volumes and higher average product prices. As a percentage of oil and gas revenue, royalties remained constant. If crude oil prices remain strong, royalties in 2000 will increase as the Alberta Royalty Credit decreases dramatically with increases in the price of oil.

(\$ thousands, except where noted)

	1999	1998
Total royalties, net of Alberta Royalty Credit (ARC)	\$3,525	\$2,002
As a percentage of revenue	14%	13%
Per boe	\$ 3.28	\$ 2.49

Operating Costs

Operating costs fell 14 percent on a boe basis to \$5.34, a decline that surpassed the Company's target reduction for 1999. While higher production volumes had some impact, the major contributor was the sale of the Company's Saskatchewan and Manitoba production. These areas were primarily light oil-prone and attracted high revenues in times of strong oil prices, but was a relatively high cost jurisdiction. It also suffered from high production declines, leading to much higher per boe operating costs later in the life of the properties. The Company's 1999 operating expenses show the impact of Saskatchewan and Manitoba production up to the time of closing the dispositions in September. Search is anticipating operating costs of less than \$5.00/boe in 2000.

(\$ thousands, except where noted)

	1999	1998
Operating costs	\$5,733	\$4,989
As a percentage of revenue	22%	33%
Per boe	\$ 5.34	\$ 6.20

General and Administrative

Gross general and administrative (G&A) expenditures were 38 percent higher during 1999 compared to 1998, but up only four percent on a boe basis. The increase in expenditures in 1999 was due to the inclusion of a full year of salaries related to a number of employees who joined the Company late in 1998. Net G&A expenses increased 53 percent due to higher gross expenditures, partially offset by increased operating and capital overhead recoveries and higher capitalized G&A. Operating and capital recoveries were up 21 percent in total, but down eight percent on a boe basis. This increase in recoveries was due to the substantial 1999 drilling program and was partially offset by the sale of properties in Saskatchewan and Manitoba.

In 2000, the Company's capital overhead recoveries should be about the same as in 1999 as an equivalent amount of capital spending is planned; however operating recoveries should be substantially reduced due to the loss of a full year of recoveries related to the disposition of the Company's Saskatchewan and Manitoba properties.

Capitalized G&A expenses were consistent at 36 percent of gross G&A in both 1998 and 1999 and this percentage should remain the same for 2000.

(\$ thousands, except where noted)	1999	Per boe	1998	Per boe
Gross general and administrative	\$3,861	\$3.60	\$2,803	\$3.47
Less: operating and capital recoveries	(815)	(0.76)	(673)	(0.83)
Less: capitalized	(1,384)	(1.29)	(1,040)	(1.29)
Net general and administrative	\$1,662	\$1.55	\$1,090	\$1.35
As a percentage of revenue	6%		7%	
Employees at year end	28		25	

Interest

Interest expense increased in 1999 as the Company carried on average about \$5 million in additional bank debt throughout the year. The year-end long-term debt amount was reduced by the \$4 million financing the Company closed on December 30, 1999. Debt as a percentage of enterprise value decreased dramatically, driven by a doubling in the Company's share price from year-end 1998 to 1999.

(\$ thousands, except where noted)	1999	1998
Year-end long-term debt	\$13,000	\$14,350
Year-end market capitalization plus net debt (enterprise value)	99,360	53,854
Debt as a percentage of enterprise value	13%	27%
Interest expense	1,456	763
Per boe	\$ 1.08	\$ 0.96

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration grew in total in 1999 as a result of a 34 percent increase in boe production volumes. On a boe basis, they grew by eight percent as a result of higher reserve finding costs.

(\$ thousands, except where noted)	1999	1998
Depletion and depreciation on oil and gas properties	\$7,686	\$5,102
Depreciation on office equipment	28	68
Site restoration	124	242
Depletion, depreciation, and site restoration	7,838	5,412
Per boe	\$ 7.30	\$ 6.73

Cash Flow

Cash flow from operations grew by 125 percent in 1999, driven by higher product prices and higher production volumes. Product price changes and production volumes are discussed in detail on pages 18 and 22. The Company also significantly improved its debt to cash flow ratio. This was achieved through property dispositions, followed by successful redeployment of capital to replace cash flows. Search was able to replace more than the disposed volumes by drilling, and used the extra proceeds from dispositions to pay down debt. The end result is that Search has a very healthy balance sheet and is well positioned to carry out its 2000 program, while maintaining the flexibility to pursue attractive acquisition opportunities that may arise.

	1999	1998
Cash flow from operations (\$ thousands)	\$13,549	\$ 6,009
Per boe	\$ 12.62	\$ 7.47
As a percent of revenue	53%	40%
Year-end debt to cash flow ratio	1.37	2.34
Return on capital – cash flow	28.7%	17.0%
Recycle ratio	1.6	1.1
Per share basic	\$ 0.29	\$ 0.16
Per share fully diluted	\$ 0.27	\$ 0.15

Net Income

Search recorded a dramatic increase in net income in 1999 compared with 1998. While pricing and volumes contributed to the increase, the Company's continued focus on low cost reserve additions was a critical component to improved net income.

	1999	1998
Net income (\$ thousands)	\$5,711	\$ 597
As a percent of revenue	22%	4%
As a percent of cash flow	42%	10%
Return on equity	15.6%	2.2%
Return on capital	13.4%	3.4%
Per boe	\$ 5.32	\$ 0.74
Per share basic and fully diluted	\$ 0.12	\$ 0.02

Net Asset Value

The Company's net asset value was based upon an independent reserve evaluation conducted by McDaniel & Associates Consultants Ltd. dated January 1, 2000. All reserve values are presented on a before tax basis, with escalating prices as disclosed on page 19. Undeveloped land was independently evaluated by Seaton-Jordan & Associates Ltd., also dated January 1, 2000. No value has been assigned to the Company's tax pools or its extensive 2D and 3D seismic database.

<i>Based on escalating prices</i> (\$ thousands, except where noted)	<i>Discounted Values of Estimated Future Net Revenues Before Tax</i>	
	<i>10%</i>	<i>15%</i>
<i>Proved producing reserves</i>	\$ 72,085	\$64,310
<i>Proved non-producing reserves</i>	15,570	13,186
<i>Proved undeveloped reserves</i>	9,398	8,613
<i>Total proved reserves</i>	97,053	86,109
<i>Total probable reserves – risked at 50%</i>	9,139	7,446
<i>Total reserve value</i>	106,192	93,555
<i>Undeveloped land</i>	8,416	8,416
<i>Working capital</i>	(5,564)	(5,564)
<i>Long-term debt</i>	(13,000)	(13,000)
<i>Net asset value</i>	\$ 96,044	\$83,407
<i>Basic shares outstanding (thousands)</i>	47,527	47,527
<i>Net asset value per share (\$)</i>	\$ 2.02	\$ 1.75

Liquidity and Capital Resources

The year 1999 can be characterized as a year of great change at Search. The Company undertook a dramatic disposition program which reduced daily production by approximately one quarter. The proceeds of the dispositions were then aggressively reinvested in existing core areas, resulting in sold production being more than replaced. 1999 capital expenditures are summarized in the following table:

1999 Capital Expenditures (\$ thousands)

<i>Land and seismic</i>	\$ 5,414
<i>Drilling, completions and workovers</i>	14,732
<i>Well equipping and facilities</i>	4,547
<i>Office and G&A</i>	1,481
<i>Total exploration and development expenditures</i>	26,174
<i>Acquisitions of producing properties</i>	6,833
<i>Disposition of properties</i>	(12,667)
<i>Net capital expenditures</i>	\$20,340

Oil prices bottomed, then climbed during the year, resulting in increased cash flows and higher equity prices. Late in the year, Search drilled an exciting discovery well at its Klua property in northeastern British Columbia. Control of the well was lost in December, and subsequently regained 12 days later. Testing of the well later revealed a reservoir capable of rates of production in excess of 15 mmcf/d. Search has several similar structures to drill at Klua. In short, the Company has the capability to take its production to a substantially higher level.

During 1999, Search had a Normal Course Issuer Bid in place and purchased 1,530,100 shares at an average price of \$1.04 per share. The Company believes that this was an appropriate use of corporate funds as it did not impinge upon the core capital expenditures program. The Normal Course Issuer Bid has been renewed for 2000.

To mitigate the risks involved in exploration and development, Search maintains extensive insurance coverage for well control, third party liability and pollution. On December 6, 1999, the Company lost control of its Klua well in northeastern British Columbia which was subsequently brought under control on December 18. As of February 22, 2000, approximately \$5 million had been spent on regaining control of the well and on clean up and remediation. Search's working interest share of this amount is 50 percent. The Company's audited financial statements at December 31, 1999 contain a receivable from insurance proceeds of \$2.5 million and a payable to the well operator of \$2.5 million. No other provision has been made in the financial statements and the Company believes that adequate insurance is in place to cover all ongoing remediation expenses.

Outlook

Looking forward to 2000, Search has established a capital expenditures budget of \$32 million. The sources of funds to finance this program are outlined in the following table:

(\$ thousands)

1999 closing debt and working capital deficiency	\$18,564
Cash flow	22,000
Capital expenditures	32,000
2000 budgeted closing debt and working capital deficiency	\$28,564

The cash flow budget for 2000 is based upon daily average production of 4,000 boe with WTI averaging US\$18.75/bbl, Alberta average gas prices of \$2.75/mcf and the Canadian dollar at US\$0.68. Naturally, these are only forecasts of 2000 operating parameters and actual results may vary dramatically. The Company constantly monitors industry conditions and its own operating results, and changes in spending plans and forecasted cash flows are made as soon as new data becomes apparent. Still, the sensitivity of Search's results to changes in major industry benchmarks is as follows:

<i>Sensitivities</i>	<i>Cash Flow</i> <i>(thousands)</i>	<i>Cash Flow</i> <i>Per Share</i>
<i>Change of US\$1.00/bbl in WTI</i>	<i>\$500</i>	<i>\$0.01</i>
<i>Change of \$0.10/mcf in the Alberta average gas price</i>	<i>\$700</i>	<i>\$0.02</i>
<i>Change of US\$0.01 in the US/Cdn exchange rate</i>	<i>\$150</i>	<i>NIL</i>
<i>Change of one percent in interest rates</i>	<i>\$100</i>	<i>NIL</i>

As discussed earlier in this report, prices received for oil and gas are a fundamental driver of Company activity. Search will lock in oil and gas prices when management views prices as being attractive, or when the act of securing prices satisfies an important corporate goal. The Board of Directors has established hedging guidelines for management, beyond which Board approval is required. In any event, the Company does not enter into pure financial oil and gas price transactions, that is, hedges are always secured by the physical delivery of product. Details of the Company's outstanding product hedges as at December 31, 1999 are in Note 9 of the Notes to Consolidated Financial Statements.

Industry Risks

The oil and gas industry is inherently risky. These risks include the uncertainty of finding new reserves, the volatility of commodity prices, accessing markets to sell hydrocarbons, government regulations, royalty and tax legislation, and competitors with greater financial resources.

The Corporation attempts to mitigate these risks in a number of ways. Search employs highly competent employees in all disciplines, engages industry recognized financial and legal advisors, uses leading-edge technology to enhance analysis, maintains and monitors forward looking budgets and carries appropriate levels of business and property insurance. The Company also has a dedicated and experienced Board of Directors, who readily offer their knowledge to the senior management team.

Environmental regulations provide for restrictions and prohibitions on the release of emissions of various substances produced in association with

certain crude oil and natural gas operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. The industry is also faced with uncertainties as to availability of access to environmentally sensitive lands for exploration and development activities. The Company believes it is in compliance with all current environmental legislation and is taking such steps as the Company believes to be prudent to ensure compliance is maintained.

Year 2000

Search passed through the change of the millennium with no impact on any of its office operating systems or hardware. Field operations continued as usual without any production interruption. There continues to be a few dates remaining in 2000 that could cause problems, but all systems have been tested against these and no problems are expected.

Management's Report

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using estimates and careful judgement where necessary.

In the opinion of management, the consolidated financial statements have been prepared according to generally accepted accounting principles within accepted limits of materiality. Management has established and maintains a system of internal controls to ensure that transactions are authorized, assets are safeguarded and that the financial information is reliable and accurate.

The external auditors, Ernst & Young LLP, appointed by the shareholders, have examined the consolidated financial statements. The Audit Committee consisting of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the consolidated financial statements.



William T. Davis
President and Chief Executive Officer



Jeffrey P. Jongmans
Chief Financial Officer

February 26, 2000

Auditors' Report

To the Shareholders of Search Energy Corp.

We have audited the consolidated balance sheets of Search Energy Corp. as at December 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.



Chartered Accountants

Calgary, Canada

February 26, 2000

Consolidated Balance Sheets

As at December 31

	1999 \$	1998 \$
Assets		
Current		
Accounts receivable (note 10)	8,985,306	5,539,759
Deposit	—	2,450,000
	<u>8,985,306</u>	<u>7,989,759</u>
Property and equipment (notes 3 and 4)	59,337,661	48,472,714
	<u>68,322,967</u>	<u>56,462,473</u>
Liabilities		
Current		
Bank indebtedness	1,359,517	1,141,688
Accounts payable and accrued liabilities (note 10)	13,189,549	6,544,608
	<u>14,549,066</u>	<u>7,686,296</u>
Long-term debt (note 5)	13,000,000	14,350,000
Provision for future site restoration	1,024,109	900,556
	<u>28,573,175</u>	<u>22,936,852</u>
Shareholders' Equity		
Share capital (notes 4 and 6)	33,182,343	32,129,402
Retained earnings	6,567,449	1,396,219
	<u>39,749,792</u>	<u>33,525,621</u>
	<u>68,322,967</u>	<u>56,462,473</u>

See accompanying notes

On behalf of the Board



Director



Director

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31

	1999 \$	1998 \$
Revenue		
Petroleum and natural gas sales	25,769,530	14,965,000
Royalties, net of Alberta Royalty Credit	(3,524,972)	(2,002,192)
	<u>22,244,558</u>	<u>12,962,808</u>
Expenses		
Operating	5,733,026	4,989,336
General and administrative	1,662,373	1,089,613
Interest	1,155,729	763,080
Depletion, depreciation and site restoration	7,838,399	5,411,986
	<u>16,389,527</u>	<u>12,254,015</u>
Income before taxes	5,855,031	708,793
Corporate capital taxes (note 7)	143,953	112,260
Net income	<u>5,711,078</u>	<u>596,533</u>
Retained earnings, beginning of year	1,396,219	916,720
Excess of redemption price over carrying value of common shares	(539,848)	(117,034)
Retained earnings, end of year	<u>6,567,449</u>	<u>1,396,219</u>
Net income per share (note 8)		
Basic and fully diluted	<u>0.12</u>	<u>0.02</u>

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31

	1999 \$	1998 \$
Operating Activities		
Net income	5,711,078	596,533
Add items not requiring cash:		
Depletion, depreciation and site restoration	7,838,399	5,411,986
Cash flow from operations	13,549,477	6,008,519
Changes in non-cash working capital	3,199,394	2,390,936
Cash provided by operating activities	16,748,871	8,399,455
Financing Activities		
Issue of common shares for cash	191,250	19,000
Issue of flow-through shares for cash (note 6)	4,000,000	3,250,000
Shares cancelled pursuant to issuer bid (note 6)	(1,589,562)	(884,354)
Share issue costs (note 6)	(328,595)	(294,320)
Increase (decrease) in long-term debt	(1,350,000)	4,350,000
Decrease (increase) in deposit	2,450,000	(2,450,000)
Cash provided by financing activities	3,373,093	3,990,326
Investing Activities		
Cash component of Petro-Canada acquisition (note 4)	—	(100,000)
Expenditures on property and equipment	(33,006,468)	(17,070,997)
Dispositions of property and equipment	12,666,675	3,406,375
Cash used in investing activities	(20,339,793)	(13,764,622)
Net decrease in cash	(217,829)	(1,374,841)
Cash (bank indebtedness), beginning of year	(1,141,688)	233,153
Bank indebtedness, end of year	(1,359,517)	(1,141,688)
 Cash flow from operations per share (note 8)		
Basic	0.29	0.16
Fully diluted	0.27	0.15

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

1 Operations

Search Energy Corp. ("Search" or the "Corporation") was continued in 1994 under the laws of the Province of Alberta. The Corporation's business is the acquisition of, and the exploration for and development and production of, crude oil and natural gas in Canada.

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary.

2 Summary of Significant Accounting Policies

Property and equipment

Petroleum and natural gas properties and related equipment

The Corporation follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the acquisition of and the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive are capitalized in a Canadian cost centre and charged to income as set out below. Such costs include lease acquisition, drilling, geological and geophysical costs and overhead expenses related to exploration and development activities. Costs of acquiring and evaluating unproved properties are excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion of petroleum and natural gas properties and depreciation of lease and well equipment is provided on accumulated costs using the unit of production method based on estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. For purposes of the depletion calculation, proved petroleum and natural gas reserves are converted to a common unit of measure on the basis of one barrel of oil or liquids being equal to six mcf of natural gas.

The depletion and depreciation cost base includes total capitalized costs, less costs of unproved properties, plus a provision for future development costs of proved undeveloped reserves.

The net carrying value of the Corporation's petroleum and natural gas properties is limited to an ultimate recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated production costs, general and administrative costs, financing costs, site restoration and abandonment costs, and income taxes. Future net revenues are estimated using prices and costs without escalation or discounting, and the income tax and Alberta Royalty Credit legislation in effect at the year end.

Furniture and equipment

The Corporation records furniture and equipment at cost and provides depreciation on the declining balance method at a rate of 20% per annum which is designed to amortize the cost of the assets over their estimated useful lives.

Future site restoration

The estimated cost of future site restoration and abandonment is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The annual charge, provided for on a unit of production basis, is accounted for as part of depletion, depreciation and site restoration expense. Actual site restoration expenditures are charged to the accumulated provision account as incurred.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Joint operations

The accounts of the Corporation reflect its proportionate interest in exploration and production activities conducted jointly with others.

Income taxes

The Corporation follows the deferral method of tax accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Corporation provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by exploration and development costs and capital cost allowances in excess of the depletion and depreciation provisions recorded in the accounts.

Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt. As at December 31, 1999 and 1998, there are no significant differences between the carrying amounts reported on the balance sheet and the estimated fair values of the financial instruments.

Flow-through shares

A portion of the Corporation's exploration and development activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits, the carrying value of the Corporation's petroleum and natural gas properties and the flow-through shares issued are recorded net of the tax benefit of the renouncements in the year the renouncements are made.

3

Property and Equipment

	December 31, 1999		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Petroleum and natural gas properties			
and related equipment	75,886,681	16,886,172	59,000,509
Furniture and equipment	469,315	132,163	337,152
	76,355,996	17,018,335	59,337,661

	December 31, 1998		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Petroleum and natural gas properties			
and related equipment	57,404,688	9,190,886	48,213,802
Furniture and equipment	371,515	112,603	258,912
	57,776,203	9,303,489	48,472,714

During 1999, Search capitalized general and administrative expenditures directly related to exploration and development activities of \$1,383,634 (1998 – \$1,040,358).

Costs of \$5,971,638 (1998 – \$7,195,179) for unproven properties have been excluded from the calculation of depletion expense.

4 Acquisition of Petro-Canada Subsidiary

On September 25, 1998, the Corporation acquired all of the issued and outstanding shares of 765467 Alberta Ltd. ("765467"), a subsidiary of Petro-Canada in exchange for 16,600,000 common shares valued at \$11,991,643 and \$100,000 cash. 765467 was subsequently wound up.

The acquisition has been accounted for by the purchase method, where the fair value of the purchase consideration was allocated to the fair value of 765467's assets. Accrued costs of the acquisition were included in Search's working capital. The purchase price was allocated as follows:

<i>Property and equipment</i>	\$ 7,721,224
<i>Working capital, including deposit</i>	4,370,419
	<u>\$12,091,643</u>

5 Long-Term Debt

The Corporation has a \$30,000,000 line of credit with a chartered bank consisting of a revolving operating demand loan. Interest is charged based on either prime or bankers' acceptance rates at the Corporations option subject to certain basis point or stamping fee adjustments ranging from 0 – 1.75% depending on the Corporation's quarterly debt to cash flow ratio. Collateral for this line consists of a general security agreement in the amount of \$50,000,000 covering all assets of the Corporation. Under the terms of this facility the borrowing limit is subject to review on April 30, 2000.

While the credit facility is demand in nature, the bank has stated that it is not its intention to call for repayment before December 31, 2000 provided that there is no adverse change in the financial position of the Corporation. Accordingly, the loan is classified as long term.

At December 31, 1999, the effective interest rate on the outstanding amounts under the facility was 6.3% (1998 – 6.3%). During 1999, the Corporation made cash interest payments in the amount of \$1,201,850 (1998 – \$811,415).

6 Share Capital

Authorized

Unlimited number of Common shares

Unlimited number of Preferred shares issuable in series

		<i>Amount</i>
<i>Common Shares</i>	<i>Number</i>	<i>\$</i>
<i>Balance, January 1, 1998</i>	28,164,366	19,364,799
<i>Acquisition of Petro-Canada subsidiary [note 4 (a)]</i>	16,600,000	11,991,643
<i>Private Placement of Flow-Through Shares (a)</i>	3,155,340	3,250,000
<i>Issued for cash</i>	28,333	19,000
<i>Tax benefits renounced (c)</i>	–	(1,434,400)
<i>Shares cancelled pursuant to Issuer Bid (d)</i>	(1,116,000)	(767,320)
<i>Share issue costs</i>	–	(294,320)
<i>Balance, December 31, 1998</i>	46,832,039	32,129,402
<i>Issued for cash</i>	225,000	191,250
<i>Private Placement of Flow-Through Shares (b)</i>	2,000,000	4,000,000
<i>Tax benefits renounced (c)</i>	–	(1,760,000)
<i>Shares cancelled pursuant to Issuer Bid (d)</i>	(1,530,100)	(1,049,714)
<i>Share issue costs</i>	–	(328,595)
<i>Balance, December 31, 1999</i>	47,526,939	33,182,343

- (a) On May 25, 1998 the Corporation completed the private placement of 3,155,340 Units for gross proceeds of \$3,250,000. Each Unit consists of one flow-through common share and 3/4 of one common share purchase warrant. Each whole common share purchase warrant was exercisable, on or before November 25, 1999, into one common share of the Corporation at \$1.16 per share. The warrants expired unexercised.
- (b) On December 30, 1999, the Corporation completed the private placement of 2,000,000 flow-through common shares for gross proceeds of \$4,000,000.
- (c) In accordance with the terms of its flow-through share offerings, and pursuant to certain provisions of the *Income Tax Act* (Canada), Search has renounced, for income tax purposes, exploration and development expenditures incurred to holders of its flow-through shares in the aggregate amount of \$4,000,000 (1998 – \$3,097,500). The carrying values of property and equipment and share capital were reduced by \$1,760,000 (1998 – \$1,434,400) to reflect the tax benefits of the expenditures to be renounced related to the 1999 and 1998 flow-through issuances. At December 31, 1999, eligible expenditures of \$4,000,000 (1998 – \$1,003,452) remain to be incurred.
- (d) During 1999, the Corporation purchased and cancelled 1,530,100 of its common shares pursuant to a normal course issuer bid (1998 – 1,116,000 common shares). The \$539,848 (1998 – \$117,034) excess paid over the \$1,049,714 (1998 – \$767,320) carrying value of these shares has been charged to retained earnings.

Stock Options

At December 31, 1999, the Corporation had in place a stock option plan under which a maximum of 4,695,500 common shares are reserved for issuance to its employees, officers and directors. The exercise price of each option equals the market price of the Corporation's shares on the date of grant and an option's maximum term is 5 years. Options vest one third per year from the anniversary date of the option grant. No compensation expense is recognized when stock options are issued or exercised. At December 31, 1999, the Corporation has granted options to purchase 3,987,000 common shares at exercise prices ranging from \$0.60 to \$1.65 per share. These options expire between 2000 and 2004.

A summary of the status of the Corporation's outstanding stock options as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

	Number	Average Price \$
Balance, January 1, 1998	2,325,500	1.11
Granted	1,893,000	0.72
Expired or cancelled	(274,000)	0.98
Balance, December 31, 1998	3,944,500	0.93
Granted	400,000	1.03
Expired or cancelled	(357,500)	0.78
Balance, December 31, 1999	3,987,000	0.96

At December 31, 1999, 1,952,333 stock options were exercisable at a weighted average price of \$1.06 per share (1998 – 992,653 stock options at \$1.07 per share).

7

Income Taxes

Income taxes recorded on the consolidated statements of operations and retained earnings differ from the tax calculated by applying the combined statutory Canadian corporate federal and provincial income tax rate to income before taxes as follows:

	<i>Year Ended December 31,</i>	
	<i>1999</i>	<i>1998</i>
Corporate income tax rate	45%	45%
Computed income tax expense	\$2,618,483	\$316,986
Increase (decrease) income tax:		
Non-deductible Crown charges, net of ARC	\$1,062,265	\$547,482
Resource allowance	(1,635,401)	(687,644)
Benefit of losses not previously recognized	(2,610,817)	55,815
Non-deductible depletion and other	565,470	(232,639)
Deferred income tax expense	—	—

At December 31, 1999, the Corporation had non-capital losses of approximately \$2,330,000 available to reduce future years taxable income. The non-capital losses expire as follows: 2002 – \$116,000; 2003 – \$30,000; 2004 – \$516,000; 2005 – \$1,590,000 and 2006 – \$78,000.

8

Per Common Share Amounts

The calculation of net income per share and cash flow from operations per share is based on the weighted average number of common shares outstanding during 1999 of 46,176,128 (1998 – 38,050,227). The fully diluted weighted average number of shares outstanding at December 31, 1999 is 50,018,758 (1998 – 42,185,748).

9

Marketing Contracts

Commodity price hedges are used by the Corporation to manage its exposure to fluctuations in commodity prices. Petroleum and natural gas sales are adjusted as the gains and losses on the hedges are realized. At December 31, 1999, the corporation has no financial hedges in place but does have the following physical hedge contracts:

<i>Volumes</i>	<i>Fixed Price (\$Cdn)</i>		<i>Period Hedged</i>
<i>Natural Gas</i>			
2,100 mcf/d		3.32/mcf	Jan. – Oct. 2000
1,050 mcf/d		3.65/mcf	Jan. – Mar. 2000
525 mcf/d		3.71/mcf	Jan. – Mar. 2000
<i>Crude Oil</i>			
	Floor	Cap	
200 bbls/d	28.78/bbl	31.67/bbl	Jan. – Feb. 2000
100 bbls/d	27.47/bbl	32.74/bbl	Jan. – May 2000

10

Loss of Well Control

On December 6, 1999, a well located at Klua, British Columbia blew out. The well was brought under control on December 18, 1999. Site remediation activities are ongoing. Search has a 50% non-operated interest in the well. Included in accounts payable is an accrual of \$2,500,000 relating to the Corporation's share of well containment and clean-up costs incurred to date. Accounts receivable also includes a \$2,500,000 accrual related to the Corporations expected recovery of the cash costs from its various insurers. The Corporation believes that it has adequate insurance coverage for its share of all possible future costs relating to the blow-out and ongoing clean up.

11

Comparative Figures

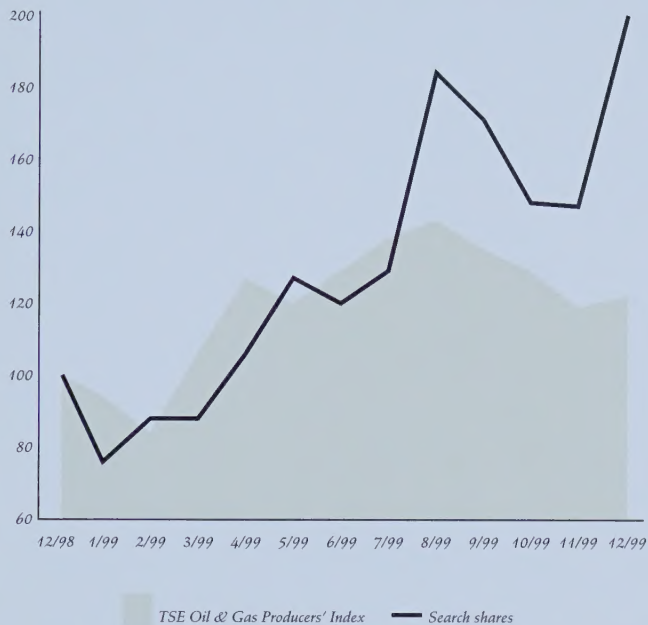
Certain comparative figures have been reclassified to conform to the 1999 presentation.

Five-Year Performance Review

<i>As at December 31</i>	1999	1998	1997	1996	1995
Operations					
<i>Daily production</i>					
Oil & NGLs (bbls)	1,275	1,383	922	258	69
Natural gas (mmcf)	16.7	8.2	3.7	0.4	0.3
Average production (boe)	2,945	2,204	1,287	295	96
<i>Reserves</i>					
Proved (mboe)	8,040	6,582	3,905	2,111	454
Proved plus risked probable (mboe)	8,991	7,305	4,518	2,551	500
<i>Finding, development and acquisition costs</i>					
Proved (\$/boe)	8.06	6.85	8.49	8.32	3.42
Proved plus risked probable (\$/boe)	7.37	6.72	7.77	6.66	2.84
<i>Wells drilled</i>					
Gross	56.0	25.0	14.0	6.0	2.0
Net	47.3	17.8	6.6	4.5	1.0
<i>Undeveloped land</i>					
Acres (net)	100,076	112,150	60,799	40,121	1,280
Financial					
Total revenue (\$ thousands)	25,770	14,965	10,951	2,683	675
<i>Average product prices</i>					
Crude oil and NGLs (\$/bbl)	22.21	17.70	24.87	27.07	21.34
Natural gas (\$/mcf)	2.54	2.01	1.88	0.99	1.42
<i>Cash flow from operations (\$ thousands)</i>	13,549	6,009	4,028	832	53
Per share (\$)	0.29	0.16	0.18	0.18	0.02
Per boe (\$)	12.62	7.47	8.57	7.72	1.52
<i>Net income (\$ thousands)</i>	5,711	597	725	192	(648)
Per share (\$)	0.12	0.02	0.03	0.04	(0.28)
As a percentage of cash flow (%)	42	10	18	23	—
<i>Return on capital (%)</i>	13.4	3.4	5.8	3.3	(40.0)
<i>Return on equity (%)</i>	15.6	2.2	5.1	3.7	(36.6)
<i>Shares outstanding (thousands)</i>	47,527	46,832	28,164	12,929	3,305
<i>Net capital expenditures (\$ thousands)</i>	20,340	23,836	19,209	14,678	1,506
<i>Year end debt, including working capital (\$ thousands)</i>	18,564	14,047	10,375	7,662	580
<i>Debt to cash flow multiple</i>	1.37	2.34	2.58	9.21	10.94
<i>Expense per boe</i>					
Operating (\$)	5.34	6.20	8.36	8.73	9.90
General and administration (\$)	1.55	1.35	1.50	2.69	4.08
Interest (\$)	1.08	0.96	1.19	0.60	0.72
<i>Proved plus risked probable reserves per 1,000 shares</i>	189	156	160	197	151
<i>Boe production per 1,000 shares</i>	23	17	17	8	11

Search versus TSE Oil & Gas Producers' Index

Percentage Change in Price (%)



Search 1999 Trading History

Share Price (\$)

	High	Low	Close	Volume
January	0.85	0.65	0.65	1,638,125
February	0.78	0.65	0.75	850,630
March	0.87	0.75	0.75	501,732
April	0.90	0.75	0.90	1,044,032
May	1.10	0.90	1.00	570,633
June	1.15	1.00	1.00	495,924
July	1.20	1.02	1.16	529,641
August	1.56	1.20	1.56	9,170,721
September	1.57	1.45	1.45	1,865,666
October	1.45	1.15	1.26	829,227
November	1.30	1.10	1.25	1,240,976
December	1.70	1.15	1.70	3,270,370
				22,007,677

who's running this company?

William (Bill) Davis, P.Land***President and Chief Executive Officer***

Mr. Davis founded Search in 1994, and was appointed President and Chief Executive Officer several months later. A professional landman, Mr. Davis has 20 years experience in the oil and gas business in both Canada and the United States. He holds the designation P.Land with the Canadian Association of Petroleum Landmen. Prior to founding Search, Mr. Davis held various positions including Manager, Regional Exploration with Canadian Hunter Exploration Ltd.

Nicholas R. Wemyss, P.Geol.***Vice President, Exploration***

Mr. Wemyss graduated with an Honours B.Sc. Geology from the University of Toronto in 1978, and has extensive exploration experience. Prior to joining Search in 1997, he was Vice President of Exploration with ELAN Energy Inc., and Regional Exploration Manager with Canadian Hunter Exploration Ltd. Mr. Wemyss is credited with several major discoveries including the Ring-Border gas field in British Columbia and the Pouce Coupe Boundary oilfield in Alberta.

Roderick M. Myers, P.Eng.***Vice President, Business Development***

Mr. Myers graduated from Queen's University with a M.Sc. in Engineering in 1976. He joined Search in 1996 and has more than 20 years experience in the oil and gas business including various positions with Dome Petroleum, Amoco Canada, and as an independent oil and gas management consultant. Mr. Myers is a member of APEGGA.

Jeffrey P. Jongmans, C.G.A.***Chief Financial Officer***

Mr. Jongmans has more than 20 years experience in controllership, treasury, taxation and corporate finance with small, rapidly expanding oil and gas companies. Prior to joining Search in 1997, he was Vice President, Finance of Westrex Energy Corp. Mr. Jongmans is a member of the Certified General Accountant Society of Alberta, the Petroleum Accountants Society of Canada and the Canadian Petroleum Tax Society.

Douglas A. Barry, P.Eng., MBA***Vice President, Engineering and Operations***

Mr. Barry has over 15 years experience in reservoir, production and operations engineering with a number of Canadian oil and gas companies. Prior to joining Search, Mr. Barry was Manager, Canadian Operations of a private junior oil and gas company. He is a member of APEGGA and holds a B.Sc. (Engineering) from Queen's University and an MBA from the University of Western Ontario.

Corporate Information

Board of Directors

Gary F. Aitken ⁽¹⁾⁽²⁾
Calgary, Alberta

William T. Davis ⁽²⁾
Calgary, Alberta

Ronald A. McIntosh ⁽³⁾
Calgary, Alberta

Roderick M. Myers ⁽³⁾
Calgary, Alberta

Daniel U. Pekarsky ⁽¹⁾⁽²⁾
Vancouver, B.C.

Rodger A. Tourigny ⁽¹⁾⁽³⁾
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation Committee

⁽³⁾ Member of Independent Reserve Evaluation Committee

Officers and Management

William T. Davis
President and Chief Executive Officer

Nicholas R. Wemyss
Vice President, Exploration

Roderick M. Myers
Vice President, Business Development

Jeffrey P. Jongmans
Chief Financial Officer

Douglas A. Barry
Vice President, Engineering & Operations

Brian W. Mainwaring
Corporate Secretary

Executive Offices

Suite 700, 400 - 5th Avenue S.W.
Calgary, Alberta T2P 0L6
Tel: (403) 264-8810
Fax: (403) 262-0723
Email: search@searchenergy.com
Website: www.searchenergy.com

Banker

National Bank of Canada
Calgary, Alberta

Solicitors

Gowling, Strathy & Henderson
Calgary, Alberta

Auditors

Ernst & Young LLP
Chartered Accountants
Calgary, Alberta

Independent Engineers

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: SGY

Abbreviations: bbls: barrels bopd: barrels of oil per day mbbls: thousand barrels mmbbls: million barrels boe: barrels of oil equivalent (10 mcf = 1 bbl)

mboe: thousand barrels of oil equivalent boed: barrels of oil equivalent per day mcf: thousand cubic feet mmbtu: million British thermal units mcf/d: thousand cubic feet per day

mmcf: million cubic feet mmcf/d: million cubic feet per day bcf: billion cubic feet GJ: gigajoules NGLs: natural gas liquids WTI: West Texas Intermediate

Search Energy Corp.